

**EXECUTIVE COMPILATION
AND INTERPRETATION OF
THE 1998 FILING SEASON**

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**Executive Compilation and Interpretation
of the 1998 Filing Season**

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Executive Summary

This report contains Internal Audit's assessment of the processes the Service employed to ensure a successful 1998 filing season. We conducted reviews that analyzed how the Service prepared for the filing season, processed tax returns (both paper and electronic individual tax returns), and provided taxpayers customer assistance at walk-in sites. Our overall objective was to evaluate the success of the filing season in meeting the needs of taxpayers in the areas of processing tax returns, issuing timely refunds and answering taxpayer questions. In particular, we looked at what steps the Service has taken and can take to meet the Commissioner's goal of providing first-rate service to taxpayers.

Results

Overall, the Service had a successful filing season. This success included significant increases in the number of returns filed electronically, implementation of a number of tax law changes, and significant improvements in customer service through expansion of toll-free telephone service and the introduction of Saturday walk-in service. In addition, the Service was able to process returns accurately and issue refunds timely. These are significant accomplishments in meeting taxpayer needs and in improving customer service.

Our review identified process improvements needed in the following four areas that will assist in ensuring success in 1999 and future filing seasons.

I. ELECTRONIC FILING

The Service saw excellent growth in the number of electronic returns filed that far surpassed the goals for 1998. This can be attributed to a number of factors including the extensive efforts by the Service to encourage taxpayers to file electronically. However, many barriers still exist that inhibit future growth. The goal of 80 percent of tax returns to be electronically filed by the year 2007 poses a difficult challenge and will require elimination of barriers such as, the additional costs to electronically file and the requirements to mail in signature documents and W-2 statements. The draft strategic plan for Electronic Tax Administration discusses these and other barriers and includes plans to address them. Although this long-range strategy is an excellent start, we have reported some of the difficulties the Service faces in overcoming barriers. Our review also identified ways that could encourage more electronic filing (pages 3-8).

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II. SIMPLIFICATION OF RETURN FILING

We looked at the process of tax return filing from the taxpayer's point of view and how it could be made easier. Our review showed that the Service can improve the overall process used to evaluate requirements placed upon taxpayers by the various tax laws and publications. Some changes which would make filing easier and reduce taxpayer burden include (1) a simpler and shorter tax return, (2) a larger dollar tolerance for requiring a separate schedule for interest and dividends, and (3) allowing only "whole dollar entries" on tax returns. This would allow millions of taxpayers to file simpler returns with less lines and fewer schedules (pages 8-13).

III. IMPROVING CUSTOMER SERVICE

The Service greatly expanded customer service during the 1998 filing season through extended hours for toll-free telephone service and "Saturday service" for both telephone and walk-in assistance. Our review identified additional areas where customer service can be improved in the areas of walk-in assistance, taxpayer instructions, and taxpayer correspondence. This includes adding a structured process to quickly identify and react to taxpayer and IRS processing problems during the filing season (pages 13-19).

IV. CHALLENGES FOR THE 1999 FILING SEASON

The Service faces major challenges for 1999. These include the major systems changes required for the century date conversion to year 2000 and the impact from the Taxpayer Relief Act of 1997. In addition, the Service will be making significant changes to equipment processes with the consolidation of the agency's computer mainframes and replacement of the Distributed Input System and Remittance Processing System in the service centers.

The Service has recognized the high risk of these challenges and has already begun the readiness process for the 1999 filing season. Several readiness meetings have been held and actions already taken. It is critical that key members from all IRS functions are represented and actively participate in these meetings. We found that this did not always occur during the 1998 filing season readiness meetings. The lack of consistent attendance by key members could delay discussion of important issues and actions that need to be taken (pages 19-20).

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Summary Recommendations

To enhance electronic filing, simplify return filing, improve customer service and meet the challenges of the 1999 filing season, the Service should:

1. Establish a more structured process to aggressively identify, explore, and implement innovative ways to promote electronic filing. Internal Audit and IRS studies indicate the Service should consider:
 - Taking additional steps to encourage TeleFile and On-Line filing by addressing known barriers to these systems.
 - Establishing a taxpayer profile database to allow for quicker verification of taxpayer account information.
 - Proceeding with development of Personal Identification Numbers to eliminate the need for signature documents and to provide additional filing opportunities.
 - Eliminating the extra burden placed on taxpayers with balance due returns who file electronically.
2. Improve the process the Service uses to evaluate the burden placed upon taxpayers by the various tax laws and publications. To simplify return filing and reduce taxpayer burden, the Service should consider:
 - Providing many taxpayers, whose main source of income is from wages, a simpler, shorter tax return.
 - Raising the dollar tolerance for interest and dividends from \$400 to \$1,000.
 - Requiring “whole dollars only” for all tax return entries.
3. Implement an additional structured process to quickly identify and react to taxpayer and IRS process problems during the filing season. To save costs in design and implementation, the Service should consider modifying the Program Analysis System (PAS).

Management's Response: The Chief Operations Officer agreed to explore the possibility of providing a simpler tax form for millions of taxpayers, to explore raising the dollar tolerance on interest and dividends for submitting a separate schedule, and to further evaluate establishing a taxpayer profile database. Our recommendation to use “whole dollars only” for all tax return entries to reduce processing errors and taxpayer burden will require Congressional approval. The Service should go forward and ask Congress to consider this recommendation.

The Service is taking several actions next filing season to enhance electronic filing, but management did not believe our recommendations to increase TeleFile would encourage more taxpayers to use TeleFile. However, to reach the electronic filing goal of 80

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percent, the Service will need to aggressively explore additional ways to encourage more taxpayers to file electronically.

Management did not agree that the Service should implement a structured process to quickly identify and react during the filing season to taxpayer and IRS processing problems. Management stated that our suggestion to modify the Program Analysis System (PAS) would not be a feasible vehicle to quickly identify these problems and could not be modified to correct errors and alert taxpayers in a timely fashion. We remain concerned that the Service does not have an adequate process to quickly identify and react to taxpayer and IRS processing problems during the filing season. For the 1999 filing season, numerous tax law changes will affect millions of taxpayers. In order to provide quality customer service, it is imperative that the Service determine early in the filing season whether taxpayers understand new tax forms and instructions and whether the forms are being correctly processed. Responses to the draft Internal Audit report are included in Attachment III.

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Objectives and Scope

Internal Audit's objective was to evaluate the filing season based upon the goal of the IRS to continually improve the quality of customer service and become a "customer focused" organization.

This report provides our conclusions of the 1998 filing season when measured against IRS Customer Service Standards.

The overall objective of this review was to determine whether the Service had a successful filing season by meeting the needs of taxpayers through accurate processing of returns, timely issuance of refunds, and being able to answer taxpayer questions timely and effectively. Also, we evaluated the filing season in terms of the progress the Service is making to become a "customer focused" organization based on the Commissioner's concept for modernizing the Internal Revenue Service and the IRS Customer Service Task Force report, "Reinventing Service at the IRS."

We interviewed executives in National Office functions, tested returns processing programs, evaluated the level of customer service, and reviewed reports from Congress, the National Performance Review, and the Service to reach our conclusions. Our conclusions were measured against the long-term goal of the IRS to provide first-rate service to taxpayers that is consistently as good as they receive from leading companies in the private sector.

We conducted this review in accordance with generally accepted government auditing standards. The objectives and scope of this review are listed in Attachment I.

Background

This report discusses our assessment of the 1998 filing season. We evaluated several processes including readiness for the filing season, paper and electronic return processing, and customer service to taxpayers. Also, we researched how the private sector delivers quality customer service.¹ This report brings forward

¹ Arthur Andersen, *Best Practices: Building Your Business with Customer-Focused Solutions* (Simon and Schuster, 1998).

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We evaluated the filing season in light of the challenges ahead for the Internal Revenue Service.

key issues from our filing season audits, which are listed in Attachment II.

To provide first-rate service, the Commissioner wants to shift the focus of the Service from its own internal operations to thinking about its job from the taxpayer's point of view. This report contains recommendations that will improve the Service's processes to move towards accomplishing the Commissioner's goal of first-rate service. In addition to our normal historical audit perspective, we evaluated the Service's processes with a forward look. Consequently, we have audit observations addressing the challenges for the Service to become a "customer focused" agency while making the significant program changes to ensure the Service's systems comply with year 2000.

Results

The Service had a successful 1998 filing season with significant improvements in several areas.

The Service had a successful 1998 filing season. This included successful implementation of a number of tax law changes, including the major change to the capital gains tax. There were significant increases in the number of returns filed electronically, as well as improvements in telephone access that included expanding the hours of telephone service to sixteen hours daily Monday through Saturday. The Service also provided walk-in assistance to approximately 7 million taxpayers and introduced "Saturday service" for six Saturdays during the filing season at over 150 sites.

Although the Service had a successful filing season, we identified the following four areas where additional improvements can be achieved:

- I. ELECTRONIC FILING**
- II. SIMPLIFICATION OF RETURN FILING**
- III. IMPROVING CUSTOMER SERVICE**
- IV. CHALLENGES FOR THE 1999 FILING SEASON**

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I. ELECTRONIC FILING

The Service established a process to ensure appropriate emphasis is placed on electronic filing. In the past year, the Service: (1) appointed an executive in charge of the program, (2) produced a draft long-range strategic plan to enhance electronic filing, and (3) contracted with an advertising agency to develop a marketing plan for promoting electronic filing.

Congress has set an electronic filing goal of 80 percent for all tax returns by the year 2007.

Congress set an electronic filing goal of 80 percent for all tax returns by the year 2007. Also, in the draft IRS strategic plan, the goals for electronic filing of individual tax returns are 61 million by the year 2002 and 100 million by the year 2007. In 1998, electronic filing grew to 24.4 million and surpassed the Service's goal for 1998. This success can be attributed to extensive IRS efforts to promote electronic filing, IRS partnering efforts with the private sector to expand electronic filing, and the elimination by many professional return preparers of a "separate" electronic filing fee.

However, barriers still exist that inhibit future growth in electronic filing. These barriers will make it very difficult for the Service to reach the goals in future years. In their June 1997 report, the National Commission on Restructuring the IRS concluded that a comprehensive plan is essential to remove barriers, increase benefits, and broaden the appeal of electronic transactions to all segments of taxpayer and practitioner populations.

To that end, the Service's Electronic Tax Administration (ETA) has developed a draft strategic plan that recognizes the difficulties and challenges ahead as evidenced by their mission statement. It states that the purpose of ETA is to "revolutionize" how taxpayers transact and communicate with the IRS. One of their key strategies is to make electronic filing, payment and communication so simple, inexpensive and trusted that these will be the preferred methods used by taxpayers.

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Electronic filing has not attracted a majority of taxpayers since its inception in 1986.

Past history indicates that bold and innovative steps will have to be taken for the Service to reach their goals. Electronic filing began in 1986 and the Service has promoted it as a way for taxpayers to get a faster refund. Twelve years later, an estimated 71 percent of the taxpayers with refunds still filed on paper rather than electronically. The number of electronically filed returns did increase 5 million in 1998 (19 million to 24 million). However, to get to 61 million returns by the year 2002, the Service will have to see annual increases that average over 9 million, which is almost twice as large as the increase in 1998.

The Service has a difficult road ahead to significantly expand electronic filing.

To put in perspective the challenge facing the Service to significantly expand electronic filing, we stratified returns filed in calendar year 1997 into the following four major market components:

- 1. Balance due taxpayers - Only two percent of the 31 million taxpayers who owed money filed electronically.**
- 2. Higher income taxpayers - Only seven percent of the 26 million taxpayers with incomes of \$50,000 or more filed electronically.**
- 3. TeleFile eligible taxpayers - Almost 78 percent or 16 million Form 1040EZ filers filed on paper and did not use TeleFile.**
- 4. Taxpayer-prepared returns - Approximately 35 million taxpayers prepared their own Form 1040 or 1040A return.**

The Service is taking the right approach to expanding electronic filing.

The Service is looking at ways to expand electronic filing. Most importantly, the Service is approaching it in the right way by looking at their customers in segments with different needs and wants and offering products and services tailored to those segments. The draft strategic plan discusses the need for IRS to do a better job of informing and educating taxpayers and practitioners about the benefits of electronic filing. This will include surveys of taxpayers and preparers and developing plans for using paid advertising in 1999 to promote electronic filing.

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The strategic plan is at a very high level and a process has been developed to identify barriers and detail plans for enhancements to eliminate those barriers. The plan can be further enhanced by installing a process that closely monitors development of these plans to ensure timely implementation. This process must also include continuous oversight as changes will undoubtedly have to be made in the strategic plan based upon the Service's ability to accomplish the plan's initiatives and whether these initiatives are encouraging more taxpayers to file electronically.

Already, the Service has decided not to expand TeleFile as planned for the 1999 filing season. This eliminates the only inexpensive avenue for taxpayers who prepare their own return. ETA must react quickly and decide what possibilities exist for expanding TeleFile. Our review identified additional areas where the Service's process can be improved to encourage more electronic filing, including TeleFile.

Additional steps can be taken to enhance TeleFile and On-Line Filing.

- **The Service should take additional steps to encourage TeleFile and On-Line filing.** TeleFile increased 27 percent to almost 6 million taxpayers. While this is an excellent increase, it represents only 23 percent of the 25.6 million taxpayers who received a TeleFile tax package. IRS surveyed taxpayers in 1997 to determine what IRS could do to encourage them to use TeleFile. The top three items on the survey showed that 72 percent wanted the ability to determine the federal tax prior to calling; 72 percent wanted a paper summary of tax return data from TeleFile; and, 65 percent wanted a faster refund. To encourage more taxpayers to use TeleFile, IRS should aggressively explore whether some of these enhancements could be made.

In 1998 about 930,000 taxpayers filed on-line through a personal computer, which was a significant increase over the previous year. The Service could further enhance on-line filing by working with the states and private industry so that taxpayers could file their federal and state returns in one transmission. Also, the Service needs to work

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with one large software provider to avoid early deadlines, as they required their customers to file on-line by April 10, 1998.

The Service should establish a taxpayer profile database.

- **The Service needs to establish a taxpayer profile database.** This database would allow for quicker account verification of taxpayer account information to authorize and release refunds. It could also reduce or eliminate the 24 to 48 hour delay before accepting the refund, reduce the risk of fraud and further expedite the issuance of the refunds. Internal Audit also recommended this in last year's filing season report and a similar recommendation was made in 1992 by the Service Center Reorganization Study to establish a Summary Account Record.

The Service should proceed with development of the PIN system to enhance electronic filing.

- **The Service should proceed with development of personal identification numbers (PINs) so taxpayers filing electronically do not have to submit a Form 8453 (Signature Document).** PINs are already being used by taxpayers in the TeleFile program. The Service plans to test the use of PINs for taxpayers filing on-line. Also, the PIN could be used for taxpayers to file extensions by telephone, which is already being done in Missouri for extensions to file state returns. This use of PIN's would make filing federal extensions easier for 7 million taxpayers and save processing costs.

Taxpayers who owe taxes should not face an extra burden.

- **The Service should eliminate the extra burden on taxpayers with balance due returns.** Currently, taxpayers filing electronically must mail their signature document to one address and mail their payment to another address. Taxpayers filing on paper do not face this extra burden.

Recommendation

1. To enhance electronic filing, the Service should establish a more structured process to aggressively identify, explore, and implement innovative ways to promote electronic filing. Internal Audit and IRS studies indicate the Service should consider:

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- Taking additional steps to encourage TeleFile and On-Line filing by addressing known barriers to these systems.
- Establishing a taxpayer profile database to allow for quicker verification of taxpayer account information.
- Proceeding with development of Personal Identification Numbers to eliminate the need for signature documents and to provide additional filing opportunities.
- Eliminating the extra burden placed on taxpayers with balance due returns who file electronically.

Management's Response: Management did not agree with our recommendations on how to encourage more eligible taxpayers to use TeleFile. They did not believe that the enhancements suggested would provide a strong enough incentive for taxpayers to convert from other filing methods to TeleFile. Further, those enhancements would pose additional costs to the government. With respect to On-Line Filing, preliminary discussions with the private sector and state governments indicate additional companies and states will support On-Line Filing for the 1999 filing season. Establishing a taxpayer profile database would allow quicker taxpayer account verification to authorize and release refunds; however, it raises issues such as fraud and systemic programming. Electronic Tax Administration will follow up with the Office of Refund Fraud, Customer Service, and Submission Processing, regarding their evaluation of this recommendation.

The implementation of a signature alternative such as Personal Identification Numbers involves significant legal and policy issues that required time to examine and resolve. The IRS is planning two pilots in calendar year 1999 that will provide a paperless filing experience for taxpayers eligible to participate. The On-Line Pilot will allow certain on-line filers to use a Customer Service Number to sign their return and avoid having to mail a signature document to the IRS. The Practitioner Pilot will allow taxpayers using certain return preparers to

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select a personal identification number that will be used to sign their return electronically and eliminate the paper signature document. To reduce the burden for taxpayers with balance due returns, the Service will allow electronic filers in the 1999 filing season to make payment by credit card using the telephone. In addition, certain on-line filers will be able to pay by computer and plans are for an additional payment option for TeleFile in the 2000 filing season.

Internal Audit Comments: The actions that the Service is taking to make it easier and less burdensome should enhance electronic filing. However, to reach the electronic filing goal of 80 percent, the Service will need to aggressively explore additional ways to encourage more taxpayers to file electronically. This is especially true for those taxpayers that do not use a preparer. This would include continually evaluating TeleFile and On-Line filing for additional expansion opportunities and working with the private sector to eliminate any burdens such as early filing deadlines.

II. SIMPLIFICATION OF RETURN FILING

The Service continually evaluates the complexity of tax forms and whether improvements can be made. One way the Service accomplishes this is through the use of focus groups, where the Service gathers taxpayer feedback on potential improvements to tax forms and instructions. Our review indicates the Service could improve the overall process used to evaluate the requirements placed upon taxpayers. This would include reviewing approaches states have taken to simplify return filing.

The Service offered simplified return filing for millions of taxpayers when they introduced Form 1040EZ and TeleFile.

In 1982, the Service simplified filing for several million single taxpayers by introducing Form 1040EZ. This form allowed taxpayers without dependents and with incomes below \$50,000 to file a much simpler one-page return. In 1993, this was expanded to include married filing jointly. It was made even simpler with the introduction of TeleFile, which allows most of these taxpayers to file their returns by telephone. This is the type of effort that is consistent with the Commissioner's

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vision to deliver first-rate service to taxpayers. The Service should now look into how to simplify return filing for millions of more taxpayers. The following are examples of the types of changes that could be addressed by this enhanced process.

Provide Taxpayers a Simpler and Shorter Tax Return

The Form 1040A was only a half-sheet return in 1972. It became a full sheet five years later. Since that time Form 1040A has drifted from the original "short form" to what is now a two-page return that includes many additional lines and up to six schedules or forms to accommodate more taxpayers. However, these additions increase the length and complexity of the return. Our research shows that many of the taxpayers, whose main source of income is from wages, could file a much simpler and shorter return. Also, this will posture the Service to move these taxpayers from paper to electronic in the future.

Statistics of Income Division helped us determine the potential market for a shorter and simpler tax return.

To determine the potential market for a shorter and simpler return, we asked the Statistics of Income Division (SOI) to analyze the most current individual tax return data available. The SOI analysis was performed based upon samples of returns for tax year 1995. The criteria was to identify all paper returns where taxable income was less than \$100,000 and the taxpayer could only have return entries for:

- Wages,
- Interest and/or Dividends of \$400 or less,
- Unemployment Compensation, Child Care Credit,
- Earned Income Credit, and Federal Withholding.

About 21.5 million taxpayers could file this simpler return.

This analysis showed about 21.5 million taxpayers, who did not file a Form 1040EZ, would benefit from this simpler return. An additional 1.3 million taxpayers could file this simpler return if the requirement for a schedule for interest or dividends were raised from \$400 to \$1,000. The SOI analysis showed that taxpayers eligible for the simpler returns were more likely to

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prepare their own return rather than use a professional preparer. Also, SOI analysis showed that the estimated number of these returns with more than four dependents was about one percent of the returns. This is important because a simpler return should be designed to limit the number of lines for dependents to conserve space and make it easier to complete.

This simpler return, compared with Form 1040EZ, would add only a few lines with two additional schedules for the earned income credit and child care credit. This simpler return would add four new items: (1) dependents, (2) dividends, (3) child care credit, and (4) the new child tax credit. This would follow the Commissioner's concept of looking at return filing from the taxpayer's point of view and provide a new and simpler return for millions of taxpayers whose main source of income is from wages and do not need to file a more complex return.

Raise the Dollar Tolerance for Interest and Dividends from \$400 to \$1,000

*The Service can simplify filing
for several million taxpayers
by raising the dollar tolerance
for interest and dividends.*

Since 1974, taxpayers have been required to complete and attach a separate schedule to their tax return if their interest or dividend income exceeds \$400. SOI provided us with an analysis of all paper filed returns in tax year 1995. This analysis showed that raising the dollar tolerance to \$1,000 would eliminate the additional schedule requirement for approximately 9 million taxpayers. One of the largest tax practitioners has asked the Treasury Department that this change be considered to simplify return filing. Also, at least one state has simplified return filing by raising the tolerance this year from \$400 to \$1,000. This has also allowed them to expand their state's TeleFile program.

We performed tests to determine if this schedule is needed as a worksheet by taxpayers to compute their interest and dividend totals. We randomly selected and reviewed 175 returns filed in February and March 1998, that reported interest or dividends between \$400 and

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\$1,000. Our review showed the income was from only one or two sources in 106 of the returns (61 percent). Therefore, a schedule was not needed to compute this income and is an extra burden to complete and file.

The Service has previously determined this change could result in additional costs through reduced voluntary compliance. We reviewed the information on reduced voluntary compliance, which was based on a 1985 Taxpayer Compliance Measurement Program (TCMP) survey. We question the assumption that a correlation exists between the schedule requirement and the level of voluntary compliance. It appears that the amount of interest or dividends could be the correlating factor. The TCMP survey showed that compliance improves as the amount of dividends or interest increases regardless of the schedule requirement. Although there may be some additional risk from raising the tolerance, this change creates a benefit of furthering the Service's goal to simplify filing that exceeds the risk.

Require "Whole Dollars Only" for All Tax Return Entries

Tax return filing can be made easier, with less errors, if legislative changes are made to require "whole dollars only" on all income tax returns.

Many of the states are looking at their return filing process and making changes to simplify filing. One of those changes is that 41 percent of the states now require "whole dollars only" for all entries on their income tax returns. To make it easier for taxpayers, most of the states preprint zeros for the "cents" part of each line on the return. This type of a change should be considered on federal returns. While this would require a change to Internal Revenue Code Section 6102, it will simplify filing and reduce the incidence of taxpayer and IRS processing errors because of "cents" entries on returns.

This has been recommended by various groups, including the American Institute of Certified Public Accountants and the IRS Office of the Taxpayer Advocate. "Whole dollars only" is already required for electronic return filing and Form 1040PC filers. Finally, based upon information from the IRS SOI Division for

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tax year 1996, over 75 percent of all taxpayers already file their paper return in "whole dollars only."

This change will not only reduce taxpayer errors and burden in preparing returns but will also simplify the Service's processing of returns. Currently, service centers are required to enter data from a number of return lines in "dollars and cents" on all paper returns filed regardless of what the taxpayer entered. This process is inefficient by creating unnecessary work and leads to erroneous data entries and incorrect taxpayer notices. With this change, all entries on the tax return will be entered in "whole dollars only." This not only improves the Service's efficiency, but also improves its image by reducing incorrect notices and unnecessary taxpayer contacts caused by taxpayer and IRS errors.

Recommendation

2. To simplify return filing, the Service should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications. We identified the following ways to simplify return filing and reduce taxpayer burden:
 - Provide many taxpayers, whose main source of income is from wages, a simpler, shorter tax return.
 - Raise the dollar tolerance for interest and dividends from \$400 to \$1,000.
 - Require "whole dollars only" for all tax return entries.

Management's Response: The Service will explore a new, simpler tax form. The Assistant Commissioner (Forms and Submission Processing) will initiate efforts to work with other IRS functions to address the issues involved to develop such a form. This is expected to be completed by October 1, 2000. The Assistant Commissioner (Forms and Submission Processing) will also initiate efforts by December 31, 1998 with other involved functions to explore our proposal that the

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dollar tolerance for interest and dividends should be raised as a means to reduce taxpayer burden; however, they cannot project timeframes for completion. Finally, the Service stated that the recommendation to require "whole dollars only" for all tax return entries will require Congressional approval.

Internal Audit Comments: As the Service looks at possibilities for a simpler tax return, this should include asking Congress to consider a legislative change to require "whole dollars only" for all tax return entries. One IRS study looked at the possibility of requiring whole dollar reporting on Forms 1040A and 1040EZ. The report, issued in April 1996, concluded that the Service should adopt whole dollar reporting. It listed many positives for making this change, including less IRS processing errors and the fact that most returns are already rounded to whole dollars. It also cited for tax year 1995, that at least eight states required rounding to whole dollars. Comments from officials from several of the states were positive and indicated problems were not significant. For tax year 1997, the number of states requiring whole dollars has more than doubled to 17.

III. IMPROVING CUSTOMER SERVICE

Significant changes were made during the 1998 filing season to improve customer service.

The Service has greatly expanded customer service during the 1998 filing season through extended hours for toll-free telephone service and "Saturday service" for both telephone and walk-in assistance. Plans for the 1999 filing season are to further expand the telephone service to 24 hours, 7 days a week. These are significant steps in fulfilling both the goals of the Commissioner and the IRS Customer Service Task Force to provide first-rate service to the taxpayer.

The organizational changes that the Commissioner envisions could be particularly helpful in providing consistent first-rate customer service.

The Service does not have a process at this time to encompass all activities to ensure world class customer service. With services fragmented under the current structure, along both organizational and regional lines, taxpayers do not receive consistent service. The level of customer service should improve with the organizational changes planned under the Commissioner's Concept for Modernizing the Internal Revenue Service.

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We performed limited reviews to determine if the Service can improve customer service in walk-in assistance, taxpayer instructions, and correspondence. Internal Audit is planning more in-depth coverage of Customer Service during the 1999 filing season. Although our reviews were limited, we did identify the following areas where improvements can be made.

The Service Can Improve Their Process for Identifying Taxpayer Concerns

A key component of successful organizations is that they take a proactive approach to issues rather than a reactive one. By the Service enhancing its process, it can identify taxpayer concerns and solve problems much sooner and better serve their customers. The Service's installation of "IRS Problem-Solving Days" is an excellent example. Our review identified additional areas where improvements could be made:

- **Install a permanent process at each walk-in site that allows customers to fill out "postage-paid comment cards" anytime they wish.** Successful private sector companies place a high value on customer feedback. They establish processes that obtain feedback on a regular basis, review the feedback and take appropriate action. "Comment cards" are one process the private sector often uses to obtain valuable feedback.
- **Establish a process that analyzes areas causing the most problems for taxpayers in return filing year after year and offer special assistance.** During the 1998 filing season such an effort was made with the offering of nationwide walk-in assistance on Saturday, March 28, 1998, to taxpayers who may be eligible for the earned income tax credit. This assistance was certainly helpful, but was not as timely or consistent as it could have been. For example, walk-in sites in downtown locations in cities like Chicago and Dallas were not open on March 28, 1998, to service eligible taxpayers.

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The Service can now take a proactive approach to the many tax law changes that will affect the 1999 filing season. They can identify permanent walk-in locations and prepare those sites for the difficult issues and questions taxpayers will have so that customer service will improve further. Because of the complexity of the new tax laws, special emphasis should be placed on developing processes that would include ensuring training is developed and provided to identified staff before the 1999 filing season. For example, the new child tax credit is exceedingly complex, affecting millions of taxpayers, and the Service should develop plans to help these taxpayers.

- **Improve the instructions in the tax package.** One of the ways IRS solicits taxpayer comments is in the tax package instructions where taxpayers are told that we welcome their feedback on how forms could be made simpler. This is an excellent process that can provide valuable information to improve the service to taxpayers. This message is currently located in the middle of the tax package. We suggest this paragraph be moved to a more prominent location in the tax package to encourage more taxpayer feedback and to show how much IRS values that feedback.

The Service also needs to plan sufficiently in advance to provide accurate instructions in the tax package related to walk-in assistance. In this year's package, the Service states that electronic filing is offered free of charge at many IRS offices. Our research shows this could be misleading and frustrating to taxpayers as many of the walk-in locations do not offer this service. In many states, electronic filing is offered in only one walk-in location. For example, the nearest IRS electronic filing site to Kansas City taxpayers is in St. Louis, which is 250 miles away.

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The Service Should Have a Structured Process to Quickly Identify Filing Season Problems

The Service needs a structured process to identify and solve filing season problems.

Each year the Service often has to react to tax law changes that increases the risk of errors. This will be very evident with the Taxpayer Relief Act of 1997 (TRA 1997), which makes numerous significant changes that will impact the 1999 filing season. The Service has several processes in place designed to ensure the Service is ready for the filing season and to identify and react to conditions or problems that occur during the filing season. With the high risks associated with the 1999 filing season, the Service should consider designing an additional structured process that will:

The process should identify taxpayer and IRS problems resulting from new tax law changes, new computer programs and new processes.

- **Quickly identify both taxpayer and IRS problems in implementing new tax law changes, new computer programs and new processes.** During our internal audit, On-Line Review of the 1998 Filing Season (980012), we identified both taxpayer and IRS problems needing management's attention to assist taxpayers in filing correct returns and IRS in correctly processing the returns. With a process to quickly identify taxpayer problems, the Service could react and inform the public, through media communications, of the specific errors to assist other taxpayers in avoiding the same mistakes.

In addition, the Service could evaluate whether immediate changes need to be made to the current processing procedures and controls and whether changes to tax forms, procedures or instructions for the next filing season would assist taxpayers in filing correct returns. With all of the tax law, computer program, and process changes for the 1999 filing season, the risk of taxpayer and processing errors will be even greater.

The process to identify and solve problems during the filing season would benefit both taxpayers and IRS.

- **Identify the major reasons for corresponding with the taxpayers before the returns can be processed and the major reasons for issuing math error notices.** This process would help IRS disseminate information to the public quickly to

Executive Compilation and Interpretation of the 1998 Filing Season

assist other taxpayers in avoiding the same mistakes, reduce processing costs in corresponding with so many taxpayers and provide reliable information to make major business decisions. For example, during 1998, IRS had to correspond with many more taxpayers for a missing Schedule D, Capital Gains and Losses, because of the new tax law for capital gains; however, the Service did not have a process to identify and track the reasons for corresponding with taxpayers. The Schedule D correspondence problem was only identified as significant because additional resources were needed to process the correspondence.

The Service did take several steps in anticipation of potential problems involving Schedule D in the 1998 filing season. The Service emphasized to taxpayers in the tax return instructions and related IRS publications that the capital gains change required taxpayers to file Schedule D when they previously may not have had to file the schedule. However, a significant number of taxpayers still did not attach Schedule D as required. In early April 1998, the Service estimated and reported to the public that one million taxpayers were not attaching Schedule D. The Service used this information to decide whether to continue to correspond for a missing Schedule D, regardless of the amount of capital gains claimed on the return. The estimate was based on an analysis of limited data and was later retracted as unreliable.

A potential trouble spot for next filing season will probably be taxpayers either forgetting to put their social security numbers on returns or putting incorrect numbers on returns since preprinted labels will not have the social security numbers. By having a structured process, IRS could determine early in the filing season if this is a problem and if there are other problems in which more publicity is needed to assist millions of taxpayers in filing correct returns.

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The Service should consider modifying the Program Analysis System to identify taxpayer and processing problems early in the filing season.

To save costs in designing and implementing a new process, the Service should consider modifying the Program Analysis System (PAS) which is currently being used at all service centers. This seems to be logical because some of the major objectives of PAS are to (1) identify taxpayer, service center and systemic defects, (2) analyze the reasons for their occurrence, and (3) recommend and initiate corrective action. PAS notice review currently selects a statistical sample of over 90 different types of notices to determine the accuracy of the notices. Weekly, the service centers send information to the National Office to measure the accuracy of processing returns and notices. Also, at each service center, PAS provides feedback concerning processing errors to the functional areas.

Some PAS reviews during the filing season should focus on the filing and processing of returns having the greatest risk of errors.

PAS reviews during the filing season should be prioritized to first focus on returns and notices affected by tax law changes, new computer programs and processes. IRS would then be able to quickly identify taxpayer and IRS problems in these high risk areas. In addition, reviews should analyze and evaluate the major reasons for math error notices and track and evaluate the reasons for corresponding with taxpayers before the returns are processed.

Recommendation

3. To improve customer service, the Service should implement an additional structured process to quickly identify and react to taxpayer and IRS processing problems during the filing season. To save costs in design and implementation, the Service should consider modifying the Program Analysis System (PAS).

Management's Response: The Service did not agree with the recommendation to modify PAS. They cite reasons such as PAS would not be a vehicle to quickly identify taxpayer and IRS processing problems. Also, PAS was designed to identify systemic problems and not to focus on particular errors or taxpayer notices. The Service is working to enhance the process to provide

Executive Compilation and Interpretation of the 1998 Filing Season

information to processing areas and to Customer Service for the 1999 filing season. The National Office Quality Staff plans to implement the Customer Service Quality Review Database during fiscal year 1999. This system will allow users to have access to a broader range of information from various quality review programs.

Internal Audit Comments: Numerous tax law changes will affect millions of taxpayers for the 1999 filing season. This includes such changes as the new child tax credit and two new education tax credits. These changes will require eligible taxpayers to complete either a new worksheet or forms in order to claim those credits. In order to provide quality customer service, it is imperative that the Service determine early in the filing season whether taxpayers are aware of the new laws and are able to understand new forms and worksheets that are required to be completed to comply with those new laws. We question whether the steps the Service plans to take in the 1999 filing season are sufficient to address these concerns.

IV. CHALLENGES FOR THE 1999 FILING SEASON

The Service faces major challenges for 1999. In testimony to Congress on Year 2000 issues by Commissioner Rossotti on May 7, 1998, he discussed the following major challenges for the Service in 1999:

- Extensive reprogramming of legacy systems because of TRA 1997 that will require more than 750 changes.
- The scope and short time frames associated with the massive century date conversion for year 2000.

Failure to meet these challenges could result in millions of erroneous notices, refunds, bills, and taxpayer account adjustments and could jeopardize the Service's role in collecting revenue that supports 95 percent of the federal government's operation.

In addition, the Service plans to begin consolidation of the agency's computer mainframes currently located in

Executive Compilation and Interpretation of the 1998 Filing Season

The Service recognizes the high risk for the 1999 filing season and has already begun the readiness process.

ten service centers into the two computing centers located in Memphis, Tennessee, and Martinsburg, West Virginia. The Service will also begin replacement of the Distributed Input System and Remittance Processing System with the new Integrated Submissions and Remittance Processing System that was piloted at the Austin Service Center during the 1998 filing season.

The Service has recognized the high risk of these major challenges by beginning the readiness process for the 1999 filing season several months earlier than usual. Several meetings of the 1999 Filing Season Readiness Executive Steering Committee have already been held and actions taken to prepare for 1999.

During this critical time of preparing for 1999, it is very important that all the key members of IRS functions are represented and actively participate in these meetings. We reported in our draft internal audit report, Review of 1998 Filing Season Readiness (980011), that this did not always occur as the Service prepared for the 1998 filing season. Although representatives from the functions were present at these meetings, key members were not always there. The lack of consistent attendance by key members adversely affects the discussions of issues impacting the filing season and delays actions that need to be taken to resolve those issues.

The Service should also consider implementing a structured process that will assist in identifying taxpayer and processing problems that could be more likely due to the changes for 1999. Further, the installation of additional controls as recommended in our internal audit report, On-Line Review of the 1998 Filing Season, would ensure against large erroneous bills or refunds and would also be valuable due to the high risks associated with changes to the tax laws and the Service's processing systems.

Conclusion

The Service had a successful 1998 filing season. Improvements were made in several areas that included

Executive Compilation and Interpretation of the 1998 Filing Season

significant growth in electronic filing, implementation of complex tax law changes, and expanded telephone service and walk-in assistance to taxpayers. While significant improvements were made, the Service has an extremely difficult road ahead with ambitious goals for electronic filing, more complex tax law changes in 1999, and the plans to improve service to customers through major changes to the organizational structure. Further, the challenges of the year 2000 conversion and changes to the processing systems makes it even more difficult.

The Service is making significant efforts to meet these challenges and provide first-rate service to the taxpayer. To provide first-rate service, the Commissioner wants to shift the focus of the Service from its own internal operations to thinking about its job from the taxpayer's point of view. Our report provides recommendations that will improve the Service's processes to help accomplish this by enhancing electronic filing, simplifying return filing, improving customer relationships and taking additional steps to prepare for the 1999 filing season.



Stanley C. Rinehart
Deputy Assistant Regional Inspector
(Internal Audit)

**Executive Compilation and Interpretation
of the 1998 Filing Season**

Attachment I

Detailed Audit Objectives and Scope of Review

The overall objective of the 1998 Filing Season Executive Compilation and Interpretation was to evaluate the success of the filing season in meeting the needs of taxpayers in the areas of processing tax returns, issuing timely refunds and answering taxpayer questions.

To accomplish our objective we performed the following audit steps:

- A. Reviewed the Commissioner's Concept for Modernizing the Internal Revenue Service and various reports, including the IRS Customer Service Task Force report, to gain an understanding of what plans the Service has for becoming a "customer focused" agency. In addition, we reviewed reference material on methods used by the private sector to improve customer service.
- B. Reviewed the draft IRS Strategic Plan for Electronic Tax Administration to determine what goals the Service has for expanding electronic filing and what processes the Service plans to use to achieve those goals. Reviewed related IRS statistical reports on current and estimated growth in electronic filing. Also, reviewed tax software provider requirements for filing on-line.
- C. Contacted and asked IRS Statistics of Income Division to perform several analyses to identify potential populations of taxpayers who could benefit from Internal Audit recommendations for return simplification.
- D. Computer identified and performed tests of returns filed and processed at four service centers to determine potential impact of Internal Audit recommendations for return simplification.
- E. Reviewed tax forms and related instructions (federal and state) and IRS publications to identify potential areas where forms or instructions to taxpayers could be simplified.
- F. Interviewed Service executives and management personnel from various National Office operations, including Electronic Tax Administration, Forms and Submission Processing, and Customer Service to gather information on IRS processes and to obtain their concerns and discuss possibilities for enhancing electronic filing, simplifying return filing, and improving customer service.

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of the 1998 Filing Season**

- G. Reviewed results of the following filing season internal audits to identify areas which warrant executive level attention:
- Review of 1998 Filing Season Readiness
 - On-Line Review of the 1998 Filing Season
 - On-Line Review of Processing Electronic Tax Returns
 - Review of the 1998 TeleFile Program (Individual Master File)
 - IRS' Oversight of the AT&T Contract for Toll-Free Telephone Service
 - Effectiveness of the Walk-In Program for the 1998 Filing Season
 - Executive Compilation and Interpretation of the 1997 Filing Season

Attachment II

Description of 1998 Filing Season Internal Audits

We conducted the following internal audits of the 1998 Filing Season. We have included a brief description of each audit that describes the audit's overall objective and a summary of the important points from each audit.

I. Review of 1998 Filing Season Readiness

The overall objectives were to determine whether the process was adequate to prepare the Service for the 1998 filing season and whether the Service effectively implemented the new tax law changes. Internal Audit determined that the Service met its goal of being ready for the filing season; however, the process, as executed, did not ensure that all the tax law changes were correctly implemented that affected the 1998 filing season. Internal Audit issued four memorandums on tax law changes from the Taxpayer Relief Act of 1997 and also recommended improvements in the readiness process because of the impact of tax law changes affecting the 1999 filing season.

II. On-Line Review of the 1998 Filing Season

The overall objective was to provide management with on-line feedback regarding the effectiveness of processing 1997 individual income tax paper returns. Internal Audit determined that the Service was successful in processing paper returns with no major difficulties. The Service was able to timely process and properly control returns and payments and correctly implement important tax law changes. Internal Audit did find areas where improvements would further advance the Service in providing quality customer service and in correctly processing returns. Internal Audit issued six memorandums in the areas of assisting taxpayers when claiming the earned income tax credit and child care credits, ensuring taxpayers receive correct information when applying for a taxpayer identification number for foreign adoptions, ensuring the Service correctly processes new taxpayer address information on National Change of Address labels, and providing consistent quality customer service on TeleTax.

III. On-Line Review of Processing Electronic Tax Returns

The overall objective was to provide management with on-line feedback as to whether electronic tax returns were being timely and accurately processed. This review showed that the Service experienced a successful filing season with significant growth in electronic filing. The review found electronic returns were timely and accurately processed and new tax forms and taxpayer identification numbers were being properly accepted.

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IV. Review of the 1998 TeleFile Program (Individual Master File)

The overall objective was to evaluate the effectiveness of management's efforts to successfully prepare and implement the 1998 TeleFile program for individual taxpayers. Overall, TeleFile experienced its most successful filing season to date. Through April 23, 1998, over 5.9 million returns were filed via TeleFile, which represents a significant increase over last year. This review showed that the 1998 TeleFile system effectively processed returns and provided an adequate number of phone lines to meet taxpayer demand. This review also showed that TeleFile controls and other processing controls were in place and operating adequately to prevent or detect fraudulent activity by TeleFile users.

V. Review of IRS Oversight of the AT&T Contract for Toll-Free Telephone Service

The overall objective was to evaluate the Service's processes and practices for ensuring that it is receiving service from AT&T that allows for the maximum level of customer satisfaction to taxpayers. This review was initiated because the transition of the Service's toll-free Customer Service phone lines from SPRINT to AT&T was problematic and resulted in several issues that affected the 1997 filing season and continue to impact the toll-free program. The Service has taken actions to resolve many of the major issues; however, significant problems remain unresolved because of the overall inadequacy of the initial contract with AT&T and less than acceptable performance by AT&T.

In addition to ongoing actions taken by IRS management, Internal Audit recommended the following approaches to assist in obtaining the maximum level of service from AT&T that will help deliver the best possible customer service effort: (1) The Service should ensure it has significant input to any existing contract modifications and consider entering into an agreement with the vendor as a sole customer at such time when a new contract is executed; and, (2) The Service should consider obtaining raw usage data from AT&T on a regular basis and configuring it according to Service needs and requirements.

VI. Effectiveness of the Walk-In Program for the 1998 Filing Season

The overall objective of this review was to determine whether the Service has an effective process to evaluate if the walk-in program provides a timely, quality and consistent level of service to taxpayers. The Service did take steps during the 1998 filing season to improve walk-in assistance through the introduction of "Saturday service" and the chartering of a steering committee to look at the walk-in program and develop a Concept of Operations. Internal Audit's review showed the Service could further improve processes used to evaluate the walk-in program. These include improvements in obtaining customer feedback, measuring customer expectations, and ensuring an effective quality assurance process is implemented.

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ATTACHMENT III

Management's Response

Executive Compilation and Interpretation of the 1998 Filing Season



CHIEF OPERATIONS OFFICER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

October 9, 1998

RECEIVED

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MEMORANDUM FOR CHIEF INSPECTOR

FROM:

John M. Dalrymple
John M. Dalrymple
Chief Operations Officer

SUBJECT:

Response to Draft Internal Audit Report - Executive Compilation
and Interpretation of the 1998 Filing Season (980062)

The following is our consolidated response to the recommendations contained in the
above referenced report.

RECOMMENDATION 1:

To enhance electronic filing, the Service should establish a more structured process to
aggressively identify, explore, and implement innovative ways to promote electronic
filing. Internal Audit and IRS studies indicate the Service should consider:

- Taking additional steps to encourage TeleFile and On-Line Filing
by addressing known barriers to these systems.
- Establishing a taxpayer profile database.
- Proceeding with development of Personal Identification Numbers.
- Eliminating the extra burden placed on taxpayers with balance due
returns.

Corrective Actions

- Taking additional steps to encourage TeleFile and On-Line Filing by addressing
known barriers to these systems.

We do not support the corrective actions recommended for TeleFile. Since its inception
in 1993, we have surveyed the reasons taxpayers cannot or will not use TeleFile. We
have explored these reasons, eliminating barriers, i.e., enhancing the script to make the
messages clearer and shorter which reduced the time spent on the phone.

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The IRS surveyed taxpayers in 1997 to determine what IRS could do to encourage them to use TeleFile. The top three items on the survey showed that 72 percent wanted the ability to determine the federal tax prior to calling; 72 percent wanted a paper summary of tax return data from TeleFile; and 65 percent wanted a faster refund.

The report suggested that IRS should aggressively explore whether some of these enhancements could be made to encourage more taxpayers to use TeleFile.

The percentages cited in the report are from a random sample of eligible taxpayers who did not use TeleFile in 1997, in other words, "nonusers." The enhancements suggested may encourage taxpayers somewhat, but the encouragement might not be enough to convince them to actually use TeleFile. For example, it may be sufficient to some to trust an automated system like TeleFile, but not enough for those who prefer a tax preparer or family member to fill out a fairly simple tax return.

The ability to determine the federal tax prior to calling would require an additional eight pages of tax tables to be added to the tax package. It is estimated that it would cost more than \$900,000 (based upon 1998 bid results) to include the tax tables. The contracts for the 1998 TeleFile Tax Package have already been awarded without additional pages for tax tables. Adding these additional pages after contract award would require a significant contract modification at best but could possibly require a more risky (considering the short lead time) reprocurement that fails.

The tax tables are available through other sources such as the Internet, Tax Fax Service, ordering through the Area Distribution Centers, IRS Walk-In sites, IRS Tax Forms and Publications CD-ROMs, at various post offices and libraries or through other Taxpayer Education Programs. It has been the IRS' longstanding goal (reinforced in the IRS Restructuring and Reform Act of 1998) to make paperless filing the preferred and most convenient means of filing tax returns.

The TeleFile Tax Record, which is retained by the taxpayer, contains all pertinent data that would be included in a paper summary including balance due/refund, confirmation number, and date of filing. Therefore, an additional paper summary mailed to the taxpayer would be redundant and the Service would incur a significant supplemental cost to accommodate this request.

TeleFile, in conjunction with direct deposit, is currently our fastest method of issuing refunds. It is a contradiction to state a faster refund would encourage 65 percent of taxpayers surveyed to use TeleFile, if these taxpayers are "nonusers," who were eligible to use TeleFile, but for numerous reasons (as explained in the 1997 TeleFile Quality Measures Report Written Non-User Survey) chose not to use TeleFile. We believe our marketing strategy will help us improve in the area of informing taxpayers of a faster refund in TeleFile.

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Preliminary discussions with the private sector and state governments indicate that additional companies and states will support On-Line Filing for the 1999 filing season.

Implementation Date:

TeleFile: No implementation date applies.
On-Line Filing: January 15, 1999

Responsible Official:

National Director, Electronic Program Operations OP:ETA:O

Corrective Actions:

- Establishing a taxpayer profile database.

The ability to establish a taxpayer profile database would allow for quicker account verification of taxpayers to authorize and release refunds. However, it raises issues involving areas such as fraud and systemic programming.

Electronic Tax Administration will follow up with the Office of Refund Fraud, Customer Service and Submission Processing, regarding their evaluation of this recommendation in the 1997 Filing Season Report.

Implementation Date:

To Be Determined

Responsible Official:

National Director, Electronic Program Enhancements OP:ETA:E

Corrective Actions:

- Proceeding with development of Personal Identification Numbers (PINs).

The implementation of a signature alternative such as PINs involves significant legal and policy issues. The complexity of these legal and policy issues required time to examine and resolve. The IRS is planning two pilots in calendar year 1999 which will provide a paperless filing experience for those taxpayers who are eligible to participate.

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The On-Line Pilot will address the on-line filing market and will target current on-line, Form 1040PC, and computer-generated paper 1040/1040A filers who have prepared their own returns. We are not targeting filers who use paid preparers for this pilot. The pilot will include initial delivery of a one-time use Customer Service Number (CSN). The CSN will be mailed to the identified filers, along with instructions for participating. All filers receiving the CSN, and whose only attachments are the W-2, W-2G, and/or Form 1099R, will be eligible to sign their returns with the CSN and submit the returns through IRS' regular On-Line Program. No paper signature document will have to be mailed to IRS.

The Practitioner Pilot will include the use of an authentication worksheet that is retained by selected Paid Preparers/Electronic Return Originators. Procedures for monitoring the retention of worksheets are being developed. A taxpayer would document a self-selected PIN on the worksheet and sign the electronic return using that PIN. Filers would be eligible if their only attachments are the W-2, W-2G, and/or Form 1099R. Again, no paper signature document would have to be mailed to IRS.

Implementation Date:

January 15, 1999

Responsible Official:

National Director, Electronic Program Enhancements OP:ETA:E

Corrective Actions:

- Eliminating the extra burden placed on taxpayers with balance due returns.

On August 20, 1998, the IRS announced that it has made additional arrangements with private sector firms to expand opportunities for taxpayers to file or pay electronically. Two arrangements allow for the payment of federal incomes taxes by credit card for the first time. Although the IRS will not have any fee for credit card payments, users will pay a convenience fee, based on the amount charged.

US Audiotex will process credit card payments over the telephone. After e-filing by computer -- either from home or through a tax preparer -- or by TeleFile, a taxpayer will be able to charge the balance due with a toll-free phone call. US Audiotex expects to accept most major credit cards.

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Individuals using Intuit's TurboTax or MacinTax software to e-file from their computers will be able to use a credit card to pay the balance owed to the IRS. Taxpayers will be able to use any card issued by NOVUS -- Discover Card, Private Issue, or other NOVUS card brands.

The additional payment options available for the On-Line Filing and TeleFile programs are explained below:

On-Line Filing: Beginning in January 1999, taxpayers who electronically file their balance due returns can elect to use the e-file payment option feature to pay their balance due obligation. The taxpayer will authorize the Treasury to debit their checking or savings account on a date they specify on or before April 15. In addition, the On-Line Filing Program will support the CSN implementation as referenced in the recommendation to develop a PIN system to enhance electronic filing, therefore, eliminating the need for taxpayers to send in their signature document.

TeleFile: A Request for Information Services (RIS) has been written to accept Automated Clearing House (ACH) debit payment transactions in TeleFile for Year 2000 (processing year).

Implementation Date:

On-Line Filing: January 15, 1999
TeleFile Proposed: January 12, 2000

Responsible Official:

National Director, Electronic Program Operations OP:ETA:O

RECOMMENDATION 2:

To simplify return filing, the Service should improve the process used to evaluate the burden placed upon taxpayers by the various tax laws and publications. We identified the following ways to simplify return filing and reduce taxpayer burden:

- Provide many taxpayers, whose main source of income is from wages, a simpler, shorter tax return.
- Raise the dollar tolerance for interest and dividends from \$400 to \$1000.

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- Require "whole dollars only" for all tax return entries.

Assessment of Cause:

- Provide many taxpayers, whose main source of income is from wages, a simpler, shorter tax return.

Internal Audit states that about 21.5 million taxpayers who did not file form 1040EZ would benefit from a simpler tax return when the primary source of income is wages. The new form would be designed to include wages, interest and/or dividends, dependents, child care credit, and the new child care credit.

Corrective Actions:

We concur with this recommendation to explore a new, simpler tax form. We will initiate efforts to work with other IRS functions to address the issues involved to develop such a form.

Completion Date:

October 1, 2000

Responsible Official:

Assistant Commissioner (Forms and Submission Processing) OP:FS

Assessment of Cause:

- Raise the dollar tolerance for interest and dividends from \$400 to \$1000.

Since 1974, taxpayers have been required to submit a schedule to report interest or dividend income exceeding \$400. The Office of Statistics of Income analysis of all paper filed returns in tax year 1995 shows that raising the dollar tolerance to \$1,000 would eliminate the additional schedule requirement for approximately nine million taxpayers. Based on a sample of returns filed in 1998, 61 percent of the returns had only one or two sources of these types of income, so that the schedule would not be required. The draft report questions the validity of the assumptions that raising the threshold would decrease voluntary compliance.

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Corrective Actions:

By December 31, 1998, we will initiate efforts with other involved functions to explore this proposal as a means to reduce taxpayer burden. However, we cannot project timeframes for completion.

Responsible Official:

Assistant Commissioner (Forms and Submission Processing) OP:FS

Assessment of Cause:

- Require "whole dollars only" for all tax return entries.

This recommendation requires a legislative change. The Service cannot implement without congressional approval.

Completion Date: N/A

Responsible Official: N/A

RECOMMENDATION 3:

To improve customer service, the Service should implement an additional structured process to quickly identify and react to taxpayer and IRS processing problems during the filing season. To save costs in design and implementation, the Service should consider modifying the Program Analysis System (PAS).

Assessment of Cause:

With each filing season comes an increased risk for errors which is often the result of new computer programs and processes required by new tax law implementation. Internal Audit believes that with the high risk associated with the 1999 filing season, the Service should consider designing an additional structured process to identify taxpayer and IRS processing problems more quickly, thus enabling IRS to disseminate that information to the public throughout the filing season via our Public Affairs Offices. Specifically, Internal Audit recommends that the PAS be modified to more quickly identify and respond to taxpayer and IRS errors.

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Corrective Actions:

We do not agree with the recommendation to modify the PAS to identify taxpayer and processing problems during the filing season. The purpose of the Computer-Paragraph Program Analysis System (CP-PAS) is to review weekly-generated notices in order to identify the taxpayer, the service center, and systemic errors; and, to analyze the reasons for the occurrence and to recommend corrective actions. CP-PAS review feedback currently provided to the processing areas must be used in conjunction with information gathered through other sources to identify filing season problems.

The CP-PAS review is not a feasible vehicle to do this quickly, and could not be done prior to notice generation. While PAS reviews highlight problems, and corrective actions are initiated which minimize future errors, it cannot be modified to correct errors and alert taxpayers in a timely fashion.

Internal Audit also recommends that CP-PAS reviews during the filing season be prioritized to focus on returns and notices affected by tax law changes and new computer programs and processes. The CP-PAS sampling methodology is a random selection process based on the service centers' entire notice universe. This makes it an impractical tool to focus on any particular notice.

Eventually CP-PAS will be able to provide more enhanced feedback information to the processing areas to assist in eliminating errors. The National Office Quality Staff is working to implement the Customer Service Quality Review Database (QRDB) during FY1999. This standardized product review system will replace the current application supporting the PAS program and other quality programs resident on legacy systems. The QRDB will be accessible through the IRS Intranet and use a relational database. Essentially, users will have access to an even broader range of information pertaining to the various quality review programs in the form of standard and customized reports.

Additionally, CP-PAS review data relevant to taxpayer caused errors is provided to the Service Center Public Affairs Offices to be shared with the public, as they may deem appropriate.

Completion Date: N/A

Responsible Official: N/A

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of the 1998 Filing Season

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Please contact me at (202) 622-6860 or Carolyn Tavenner at (202) 622-8764 if you have any questions.

Concur:


Assistant Commissioner (Forms & Submission Processing)

10/2/98
Date

cc: Regional Inspector, Midstates Region